

BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

AUGUST 27, 1941

The President's Scratch-Pad

At this point in our gigantic production drive, there can no longer be any doubt that defense has "taken over" and "business as usual" is being heedlessly brushed aside. Those who have not awakened to the fact that the age of frills and fancy luxuries has been suspended for an indefinite period are either living in some forest fastness without benefit of radio or press services or are mentally incompetent to realize what is happening. If nothing else will shake the civilian population into full realization, the gasoline and silk stocking shortages will. As one indignant shopper was heard to exclaim at a New York stocking counter some days ago: "War is hell, Irene!"

But it is also clear that despite the ruptures and break-away from usual procedure in both civilian and industrial life, the national production program has not proceeded "according to plan," to use a phrase of which the German propagandists are very fond. That we have overestimated the capacities of certain key industries and must now frantically try to expand them (something that should have been done months ago) is now common knowledge to all who read the newspapers and even to those who rely only on the cartoons for enlightenment. It's perfectly clear: All Americans—civilians, business executives, labor and government officials—have until now not realized the dimensions of this "arsenal of democracy" assignment. The faint air of smugness with which we all approached the task is undeniable. Now we know the truth. Indeed, management as a whole, has violated one of its own cardinal principles—i.e., to know the exact nature of a task before it attempts to perform it.

The question now is: Can we allow for a margin of error? The answer can be determined only by the course of the war abroad. For if Russia falls and England is successfully invaded, then our time will have come. If we are not ready, we will have to say: "There was not time for errors."

Alvin E. Dodd

Industrial Relations Conference in Phila., Oct. 1-2, to Survey Conditions, Outlook

Sessions Will Offer Management Opportunity To Review Develop- ments Before Heavy Fall-Winter Production Starts

A Conference that will give management a picture of general industrial relations conditions in American plants as well as a glimpse of likely future labor trends will be held by the AMA Personnel Division in Philadelphia at the Benjamin Franklin Hotel on October 1-2. The sessions are being held at the request of members who have asked for the opportunity to exchange views and experience with other companies on industrial relations developments.

The Conference will be arranged in the traditional AMA manner—plenty of case stories and room for discussion—so that the lessons of the meeting will be specific and practical. Planning committees work-

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Announces Sessions



HAROLD F. NORTH

BUSINESS OUTLOOK

World War Records Broken; Consumer Restrictions Grow

The rising tempo of defense activity continues to characterize the indexes summarized in this LETTER, and many of the gains scored since the start of the armament program have reached astronomical proportions. Another banner month has been achieved by industrial production; output is now double the rate of World War days, and if this trend is maintained the annual index of production will attain the highest level above normal in 100 years. Payrolls rose in June to a record peak, and national income figures have reflected the progressive expansion. With purchasing power at a new peak, retailers are enjoying a Christmas-like rush.

Thus far the economic picture appears rosy. Recently, however, some segments of industry have received a severe jolt as the transition to a wartime economy has been accelerated. With steel, aluminum, copper, silk and other essential materials increasingly diverted to defense production, worse blows impend. Curtailment and disemployment confront many consumer-goods industries. For some small plants, complete shutdown is imminent; indeed, the A. F. of L. estimates that 5,000 to 6,000 plants may close, throwing one or two million out of work. Not until new arms plants begin operation, late this year or early in 1942, will the laid-off workers be absorbed.

Inflation Under Way

Inflationary symptoms have also become more pronounced. The striking parallelism in price trends, wages and cost of living today and in 1914-16 indicates that the inflation of the World War period may be repeated. A serious—perhaps fatal—flaw in the situation is the inability of price-control authorities to deal with wage rates.

For the first time many of us are becoming conscious of the sea change that industry has undergone in the past year.

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BUSINESS CONDITIONS & FORECASTS

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	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	Advancing for the fourth consecutive month, national income produced in the U. S. rose in June to a new high peak for the current movement. If the expected expansion occurs during the last half of 1941, national income may exceed \$90,000,000,000—which would compare with \$83,365,000,000 in the boom year 1929 (August 16).	In July, the Business Index recorded another marked gain, with practically all its components participating. However, the period when defense work was superimposed on general economic expansion is drawing to a close; defense activity will now forge ahead at a rising tempo—but at the growing expense of normal production (Aug. 2).	Right now, business is in the restrictive phase and the <i>Business Week</i> Index—which dropped for three successive weeks—may drop somewhat further. Nevertheless, there is an underpinning of defense orders which will keep industrial activity at high levels for months to come (August 23).
Money and Credit	Federal expenditures in June were larger than in any month since defense spending began. Although expenditures during the past year were exceptionally heavy, the prospect is that this year's expenditures will be the largest on record, exceeding the expenditures of \$18,522,000,000 in the last year of the World War (August 2).	Increasing absorption of available investment funds by the growing demand for loans on the part of both the Federal Government and private enterprise, together with the inflationary trend in commodity prices, should eventually begin to have a depressing effect on bond prices (August 9).	According to the National Resources Planning Board, national income in terms of 1940 dollars may increase from \$84,000,000,000 this year to \$92,000,000,000 next year to \$105,000,000,000 in 1944 (August 23).
Security Markets	For two months in succession the stock market has exhibited the favorable combination of rising values in the face of decreased brokers' loans. In the latest week for which figures are available, the index of stock prices stood at 36.4, which compares with a 1941 high of 38.1 and a low of 33.6 (1929=100) (August 14-16).	From the last trading day before outbreak of the war to the top of the recent rally (on July 28), the Dow-Jones average of 30 industrial stocks had declined 3.2%. The recent low volume of trading bespeaks a lack of any heavy liquidating pressure (August 16).	Stock market price averages vary slightly from day to day, and volume is light. The need for cash has resulted in recent dividend reductions (despite higher earnings) and flotation of securities "for new money purposes" (August 23).
Production	The index of manufacturing activity rose to a new record high of 161 in June from 157 in May. It is probable that production will continue to run far above the normal rate during the remainder of 1941 and that the annual output this year will exceed normal by the largest amount on record (August 9).	Many companies, notably those using as a raw material the metals essential to defense, are now confronted with varying degrees of curtailment ranging up to complete shutdown of some plants. In the auto industry, the indications favor efforts to cushion whatever program of curtailment is finally adopted (August 2).	Steel, aluminum, copper, silk and other critical defense materials are being diverted from consumer-goods industries, and the net effect is curtailment and disemployment. And it will be until late this year or early 1942 that new arms plants, first coming into production, will fully take up the slack (August 23).
Distribution	After rising in May to the highest peak since May, 1930, the index of the value of department store sales, based on 1923-25 as 100, declined in June from 105 to 102—a greater than seasonal drop. Sales in June, however, were 14% larger than in the same month last year. Expansion should be resumed (August 9).	From now on, several developments will tend to temper the uptrend in retail purchasing, and to create a highly selective period. The cost of living has risen progressively since the early part of the year, and some price rises in raw materials and farm products have still to be passed on to the public (August 16).	Non-durable consumer goods production is hitting new highs. The retail rush of the last few weeks (department store sales have run about 40% ahead of last year) suggests that non-durable consumer goods output will continue at the peak level—though it won't offset dislocation in durable consumer goods (August 23).
Construction	There was a 15.3% reduction in building contracts from May to June; the average seasonal decrease is 3.9%. However, contracts in June were 62.9% above the volume of June, 1940—indicating that the building industry will continue to provide manufacturing with substantial support (August 9-16).	During the past two months, another flood of building contracts has occurred. Statistics of engineering construction awards, which represent chiefly the heavy types of construction such as factories, remain almost astronomical—the latest week's total being over triple the same figure of a year ago (August 2-9).	The <i>Engineering News-Record</i> four-week average of engineering construction awards stood at \$24,101,000 for the latest week for which statistics are available; this compares with \$23,359,000 for the preceding week and \$14,159,000 a year ago (August 23).
Agriculture	The latest estimate indicates that the index of farm income (which is a measuring rod of normal for manufacturing) will be 128.1 in 1941, or 44.2 points below the index of the value of factory output in June (August 9).	The Department of Agriculture's seasonally adjusted index of farm income registered 130.5 for June, which represented a 1% decline from May but a 36.5% gain over June, 1940 (1935-39=100) (August 2).	Raw-cotton consumption hit a new peak last month, and for the 12 months ended July reached 9,718,220 bales, or 22% ahead of previous high year—1936-37 (August 23).
Commodity Prices	During the week ended August 8, the basic commodity price index rose from 151.5 to 151.7. The latest index was 42.8% above the price level of a year ago, when the index registered 106.2 (August 16).	The U. S. Department of Labor index of 28 basic commodities advanced 25.4% from August, 1939, to December, 1939, but declined 15.9% from then until August, 1940. Since last August, however, the index has advanced 44%—half of this gain occurring in the last five months (August 9).	Each week recently the names of one or more commodities have been added to the casual rosters of "Fixed Ceiling Prices" or "No More Futures Trading"; latest additions have been sugar, rubber, tin, scrap copper. As a result, commodities futures exchanges are finding trouble in settling (August 23).
Labor and Wages	Factory payrolls rose sharply in June to the highest level on record. The payroll index, on the basis of 1923-25 as 100, advanced to 152.0 in June from 144.0 in May and from 99.5 in June last year. Payrolls in June were thus 52.8% higher than in the corresponding month last year (August 16).	Omission of powers to deal with wage advances represents a serious flaw in the effort to hold the price level in check (August 2).	The present figure of 5,100,000 unemployed will be reduced to 2,100,000 next year, predicted the National Resources Planning Board; there will be no unemployed by 1944. The Board forecasts that defense workers will increase from 4,800,000 this year to 23,500,000 in 1944 (August 23).
Foreign Trade and Conditions	With exports in May showing a gain over last year for the third consecutive month, the January and February slump was more than offset and, consequently, exports for the first five months showed an increase of 2.4% over the same period last year. The outlook is that 1941 exports will be larger than in 1940 (August 9).	Merchandise exports in May (the latest month for which figures are available) totaled \$384,600,000, 0.2% under April but 18.8% above May, 1940; imports of merchandise amounted to \$296,900,000, representing a 3.2% increase over April and a 40.4% gain over the same month a year ago (August 2).	If the predictions of the National Resources Planning Board prove correct, the lease-lend program will be expanded as much as necessary to ensure defeat of Nazi Germany and Axis powers. Half the national income will be spent on defense by 1944. There will be no active neutrality by the United States (August 23).

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

	Dun's Review	Cleveland Trust Company	National City Bank
restrictive phase, index—which has weeks—may go rtheless, there is ders which will levels for months	Industry is having its most active summer in history despite increasingly serious shortages of certain materials. Consumers' forward buying has turned a normally dull period into a Christmas-type rush. Price ceilings on a growing list of items have not prevented further advances in the general price level (August).	Progressive expansion continues to be the outstanding characteristic of business activity in this third quarter of 1941. The volume of industrial production is swelling, commodity prices are advancing, stock and bond prices are rising, employment is growing, and the cost of living is increasing (August 15).	Reports of leading corporations for the first half year show in a majority of cases an increase in net profits as compared with the first half of 1940. Combined net profits after taxes of 360 major companies approximated \$785,000,000, which compares with \$652,000,000 in the same period of 1940—an increase of 20% (August).
resources Planning of 1940 dollars 000 this year to \$105,000,000,000	Bank clearings (23 cities) totaled \$28,482,631,000 in July, very little changed from the June total but 24% above last July. The adjusted Insolvency Index (failures) in July rose to 56.0 from the five-month low of 55.0 in June (September).	National income continues to move upward with the rising volume of general business activity; the figure for June established another new high record (August 15).	Symptoms of inflation are beginning to appear in many directions. The demand for goods, represented by the huge sums being disbursed by the Treasury, is constantly growing. Many are raising the question as to whether the stage is not set for a repetition of the 1914-1920 experience unless steps are taken to prevent it (August).
ary slightly from t. The need for idend reductions otation of securi- (August 23).	Stock trading activity diminished during early August, and prices lost some of the gains achieved in June and July. The Dow-Jones industrial share average stood at 125 in mid-August, off 5 points from the July peak (August).		Corporate profits of 360 companies for the first half of 1941 were at an annual rate of 12.8%, compared with a rate of 10.8% a year ago (August).
and other criti- g diverted from the net effect is And it won't 1942 that new production, will 23).	Industry's major concern is no longer how to get orders but how to fill them. New business continues to exceed shipments, though industry is producing one-third again as much as a year ago, twice the output of three years ago. The FRB adjusted production index is estimated at 162 in July, up from 157 in June (August).	Aircraft production increased from about 100 planes monthly at the beginning of 1939 to 870 by June of this year. More than 12,000 airplanes have been produced since the start of the defense program. Total output in 1941 should be close to 20,000, three times the 1940 record (August 15).	Industrial output has continued to expand under the influence of the defense program, carrying the FRB index (1935-39 = 100) up six points in June to a new high of 156; and the movement has continued in July. In industry generally the gains this year have been due to both defense and non-defense activity (August).
roduction is still h of the last few have run about ts that non-dura- continue at this fset dislocations gust 23).	A rush on silk goods in early August gave new impetus to consumers' efforts to stock up ahead. Spreading from "hard" goods into "soft" goods lines, anticipatory buying reached substantial proportions on items such as blankets, furs, linens. Retailers reported sales exceeding 1940 by the widest margins this year (August).	The recent expansion in production continues to be much less pronounced in the consumption-goods industries than in those making durable goods. We have now reached the time when the production of war materials must forge ahead at the expense of retail trade (August 15).	Retail demand for practically all types of consumer goods has continued at high levels, with the sales of department stores and mail-order houses running more than 20% ahead of last year. Sales of consumers' durable goods such as autos and refrigerators have risen to record levels during the first half year (August).
four-week daily on awards stood week for which pares with \$29,- and \$14,159,000	Increasing when the monthly trend is usually downward, building permits in July rose to the highest level since July, 1930. A total of \$155,939,263 for 215 cities was 14.8% greater than the June volume and 25.3% higher than last July (September).		Building contract awards in 37 states are at the highest rate since 1929, according to F. W. Dodge reports. In the first six months of this year, residential building registered a 37% increase over the same period last year, non-residential gained 105%, and the total was up 57% (August).
a new peak last ended July 31 % ahead of the (August 23).	Price movements became mixed as Government controls spread. After reaching a four-year high at 143.31 on August 7 (1930-1932=100), the daily index of wholesale prices lost about a point to move narrowly around the 142 level for the next week (August).	Agricultural prospects appear to be exceptionally bright in most parts of the country, with prices high, with large crops coming to harvest, and with good weather conditions prevailing. Average prices and income received by farmers this summer are one-fourth higher than they were a year ago (August 15).	While OPACS has been endeavoring to prevent a runaway price rise by establishing price "ceilings" for various products, Congress has taken an opposite tack in enacting 85% parity loans for farmers. This has given a sharp boost to agricultural prices, which affect raw material costs and basic elements in the cost of living (August).
of one or more to the casualty- ' or "No More ons have been As a result, the e finding tough	Factory employment, usually at the year's low in July, rose instead to reach a new record high. New York State factories reported employment 32% above a year ago, payrolls up 56% (August).	Advances in ocean freight rates constitute one of the important elements in the recent increases in commodity prices. At the end of July, the average of the prices of 11 imported commodities had reached 160, while that of 17 domestic commodities had advanced to only 146 (August 15).	Commodity prices are moving up with renewed vigor to new high levels. Sensitive wholesale prices (28 staples) have advanced 44% on the average from last summer's low to a point 50% higher than at the outbreak of the war. The more comprehensive BLS wholesale index of 887 commodities is up 17% since August, 1939 (Aug.)
000 unemployed t year, predicts g Board; there 4. The Board ll increase from in 1944 (Aug-		During June, nearly one-half million additional workers found employment in non-agricultural pursuits. In theory the processes of the expansion of industrial production can continue until we reach a condition of virtually full employment of our available industrial workers (August 15).	The trend of average weekly earnings of factory workers presents a striking parallelism with that of the inflationary World War years 1915-16, except that the rise lately has been even more rapid than in 1916 (August).
ional Resources lease-lend pro- as necessary to and Axis part- vill be spent for e no active bel- August 23).		Export demand for farm products continues very low, and were it not for prevailing government agricultural programs the producers of agricultural commodities for export would be facing an extremely discouraging situation (August 15).	Freezing of Japanese assets will chiefly affect the silk hosiery and fabric lines, which employ 175,000 workers. While for years Japan had been our third largest customer and supplier, this trade has been declining recently and in 1940 accounted for only 5.6% of our total exports and 6.2% of our total imports (August).

INDUSTRIAL RELATIONS CONFERENCE IN PHILA., OCT. 1-2, TO SURVEY CONDITIONS, OUTLOOK

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ing under Harold F. North, Industrial Relations Manager of Swift & Company, and Vice President of the Personnel Division, have been busy for weeks developing a program that will properly fit today's conditions. They have been testing out executive sentiment and seeking properly qualified speakers so that registrants at the sessions will be able to determine the "drift" of labor relations and to obtain reliable information and guidance for the future.

"Hot" Topics

Subjects that will get special attention throughout the meeting are: *trends in wages and the use of cost-of-living statistics in wage determination; industrial relations trends generated by national defense; employee grievances; the development of supervisors; selection and training.*

While the meeting has been labeled an "Eastern Conference," executives from all over the United States and all industries are expected to attend. The sessions will come opportunely for many executives because they will afford enlightenment on many vital subjects before the opening of the strenuous Fall and Winter production schedules. Executives who have been consulted by letter, questionnaire and personal interview have shown deep concern over "basic" labor problems such as: developments on the closed shop, wage policies, modification of union and management policies in the face of the national emergency, etc. Wide interest has been shown also in new personnel procedures such as "forced draft" training, employee selection and job rating.

Since it is the purpose of the Conference to indicate what is happening in the field of labor relations in American companies at this moment in history and how these events are going to influence the future of management-labor relations, the Conference is regarded by the Association as one of the most important ever sponsored by the Personnel Division. Plans for the meeting are, therefore, being more carefully made than ever, and no effort is being spared to base the discussion on day-to-day developments in the field of labor relations. Members of the Association, both those in the Personnel Division and in the other Divisions, are asked to send their suggestions concerning the meeting as quickly as possible to the Association's headquarters.

OFFICE MANAGEMENT SESSIONS SCHEDULED FOR N. Y., OCT. 22-23

The Office Management Conference of the AMA will be held on October 22-23 in New York City at the Hotel Pennsylvania.

Planning for these important sessions has already begun under the direction of John Mitchell, Vice President, Courier-Citizen Company, Chicago, and Vice President of the AMA Office Management Division. While questionnaires will be sent out by the Association to determine the exact subject matter of the Conference, members are earnestly urged to send letters outlining possible Conference topics.

New Catalogue Of AMA Publications

Readers will find enclosed with this issue of the NEWS LETTER a card through which they can reserve a copy of the new 1941-42 catalogue of AMA publications. The catalogue lists and summarizes all AMA publications, except periodicals, that have been published since 1934. The list is important to libraries and handy for the executive, since it tells how to get AMA information in all the various branches of management. The catalogue will be mailed in September to all who request it through the self-addressed post card.

BUSINESS OUTLOOK

(Continued from page 1)

Yet the forced changes in our economy will probably prove in the long run to be helpful rather than harmful, we are assured by Col. Ayres' *Cleveland Trust Company Bulletin*. "They will impel us to develop new materials, make us improve our productive methods, force us to develop new kinds of mass-production procedures, and increase our faith in our national capacities to cope with difficult industrial problems. We profited in those ways as a result of our World War experiences, and it seems reasonable to expect that outcomes of similar sorts will be experienced this time."

The marked transformation our economy is undergoing is forcefully brought home by some estimates of the National Resources Planning Board. By 1944, the Board predicts, there will be no unemployment; half our national income will be devoted to defense; and 12,000,000 non-defense workers will be transferred to arms production. While we may never be faced with the choice of "guns or butter," it is becoming increasingly apparent that we can't have both bombers and Buicks.

Among New Vice Presidents



ARTHUR LAZARUS

In charge of the AMA Division of Finance and Accounts for 1941-42 will be Arthur Lazarus, Vice President, Day & Zimmermann, Inc., Chicago. Mr. Lazarus, who is known to executives in all Divisions of the AMA, has been active in the Finance and Accounts Division for many years. At recent meetings he has both presided at important sessions and presented papers on various financial subjects. By virtue of his vice presidency of Day & Zimmermann, Inc., and his past association with the Chamber of Commerce of the United States and the Metropolitan Life Insurance Company, Mr. Lazarus has had an almost unrivaled opportunity to know the management of large numbers of companies in industries throughout the United States.

An accountant by training, he became Chief of the Cost Accounting Bureau of the Chamber of Commerce of the United States in 1921 where he gave encouragement to the adoption of standard cost methods by industries and popularized the more progressive cost practices. In 1923 he became associated with Henry Bruere, then Fourth Vice President of the Metropolitan Life Insurance Company. Both Mr. Bruere and Mr. Lazarus were interested in industrial budgeting. Mr. Lazarus comments now that he never met a man with Mr. Bruere's capacity for "demanding and obtaining the impossible." Their mutual interest in budgeting led to the consideration of the problems of organization, of merchandising and marketing, and of incentive methods of compensation.

One of Mr. Lazarus' part-time associations was with the *Dry Goods Economist* as store system and accounting editor. Here he became further familiar with department store accounting practices. Mr. Lazarus joined Day & Zimmermann, Inc., in 1936.

